CIA/OER/S-06617-74 A THREAT TO SUB-SAHARAN AFRICAN DEVELOPMENT

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MEMORANDUM FOR: [redacted] /DDO

Room 3 C 20

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Attached is our assessment of the effect of increased oil prices on sub-Saharan Africa, in response to your request of 5 November.

If you have further questions please contact [redacted] x1806.

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This information is unclassified.

[redacted]

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Chief, Near East/Africa Branch
Developing Nations Division
Office of Economic Research

15 November 1974
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Increased Oil Prices: A Threat to Sub-Saharan African Development

Introduction

Sharply increased petroleum prices have not yet had as dire an effect on the economies of the non-producing African countries as was generally anticipated in early 1974. Increases in the prices of many major African exports and the dependence by most of the African populations on subsistence agriculture -- which requires no oil inputs -- have cushioned the immediate impact. The most damaging effect is against the countries' long-term potential for development. In addition, inflationary rises in consumer prices, to which the high oil prices have been a major contributor, have cut into the welfare of most urban Africans. In the four sub-Saharan countries with oil production -- Nigeria, Gabon, Angola and Congo -- development prospects have improved dramatically.

The African Gainers

Nigeria dominates sub-Saharan petroleum production and has reaped by far the largest gains from it. With production of 2.3 million b/d, it is now the world's sixth largest oil producer and has followed the lead of other OPEC countries in raising prices. Its reserves

totalled more than $4 billion at the end of September compared to a total of just $592 million at the end of 1973. Nigerian government revenues from oil are expected to total $9 billion in 1974 -- almost 4 times the 1973 figure.

So far effects of the increased oil prices on the other African producers has been mixed. Gabon's petroleum production -- 150,000 b/d in 1973 -- has made it a rich country by African standards. Its per capita income of $900 is already the largest in black Africa. Oil revenues have risen from about $83 million in 1973 to more than $500 million in 1974. Angola, as a Portuguese province, has probably not profited domestically from the oil price increases. Its oil production of about 160,000 b/d has been subject to Portuguese demand for domestic use and prices have probably not been allowed to rise with the OPEC increases. With independence, however, Angola will be in a better position to maximize returns from petroleum for domestic development. Although the Congo is a modest producer of oil -- 39,000 b/d in 1973 -- it has no refinery and is forced to import high priced petroleum products.

There are also a large number of potential African producers. Extensive exploration has been carried out and discoveries have been made in a number of countries. If prices remain high, exploitation of discoveries now considered uneconomic may become commercially feasible providing the countries with much-needed foreign exchange.

Impact on Non-Producing Sub-Sahara

Most sub-Saharan non-producing countries are experiencing some combination of curtailed growth in oil imports, reduced imports of other commodities in order to pay for needed oil, diminished gold and foreign exchange reserves, and increased foreign indebtedness. Overall, the growth in these states' combined gold and foreign exchange reserves has leveled off (see Table 1). Most of the countries have raised product prices sharply (see Table 2). Although data on imports and exports so far in 1974 are not available, it is a certainty that the non-producers' combined trade deficit will expand significantly compared to 1973's already high level.

The agricultural economies of the non-producing countries are not heavily dependent on oil, using it primarily for transport, small industries, and electric power. Imports of crude and products total only about

Table 1

Sub-Saharan Africa: Trade Balances and Foreign Exchange Reserves 1/

Million US $

	Trade Balance			Gold and Foreign Exchange Reserves			
	1971	1972	1973	1971	1972	1973	August 1974 (Preliminary)
Total	-760	95	1,295	2,000	2,100	2,725	5,600
Three producing countries	315	640	1,500	470	420	650	3,540
38 non-producing countries	-1,075	-545	-205	1,530	1,680	2,075	2,060
Seven with modest reserves	-450	-25	915	870	950	1,270	1,255
Ethiopia	-60	-20	25	70	95	180	245
Ghana	-105	100	110	50	105	190	150
Ivory Coast	55	100	145	90	85	90	100
Kenya	-250	-175	-155	170	200	235	170
Tanzania	-60	-40	-55	60	120	145	35
Zaire	-65	-100	305	145	180	235	250
Zambia	35	110	540	285	165	195	305
31 with very limited reserves	-625	-520	-1,120	660	730	805	805

1. Excluding South Africa, Angola, Mozambique, and Rhodesia.

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Table 2

Sub-Saharan Africa: Fuel Price Increases in Selected Countries

US $ per gallon

	Gasoline 1/			Diesel		
	1 Jan 1974	Recent	Percentage Increase	1 Jan 1974	Recent	Percentage Increase
Angola	.93	1.13	21	NA	NA	NA
Botswana	.68	.92	35	.45	.68	52
Burundi	.78	1.03	32	.52	.86	65
Cameroon	.70	.97	39	.43	.81	88
Central African Republic	.89	1.18	33	.67	.89	33
Chad	.98	1.09	11	.88	1.03	17
Ethiopia	.91	1.37	50	.76	.99	30
Ghana	.51 2/	1.04 2/	104	NA	.58	NA
Guinea	1.25	1.67	34	1.06	1.29	22
Ivory Coast	.86	1.12	30	.53	.79	49
Liberia	.69 2/	.83 2/	20	NA	NA	NA
Mali	.82	1.04	27	NA	NA	NA
Mozambique	.95	1.46	54	.46	.55	20
Niger	.87	1.08	24	NA	.91	NA
Rhodesia	.64	.86	34	.39	.55	41
Senegal	.89	1.11	25	.28	.41	46
Swaziland	.68	.82	20	NA	NA	NA
Togo	.73	.94	29	.58	.80	39
Zaire	.75 2/	1.50 2/	100	NA	NA	NA
Average	.82	1.18	45	.58	.80	38

1. Prices are for regular grade gasoline, except as noted.
2. Premium.

300,000 - 350,000 b/d (see Table 3). Many of the countries rely on coal and hydroelectric and almost all use charcoal and wood as fuels in the home. Because petroleum uses are not widely diversified, however, there are few areas of consumption, such as air conditioning and private automobile travel, that can be reduced without adversely affecting essential economic activity. With little developed industry, substitution of nuclear or coal fuels for petroleum would not be economically viable in most of the countries.

The impact of high oil prices on some of the non-producers has been alleviated by sharply increased prices for many major export commodities (see Table 4). High copper prices that were particularly remunerative to Zaire and Zambia, however, have fallen off sharply in the past few months, and prices for coffee, cotton, and rubber have weakened. Most of the other prices can be expected to decline as market forces evolve, increasing the exporters vulnerability to the fixed high oil prices.

The cost of oil imports to the non-producing countries in 1974 is expected approximately to triple, compared to 1972 (see Table 5). None of the countries has enough

Table 3

Sub-Saharan Africa: Dependence on Petroleum Imports, 1972 1/

Thousand barrels per day 2/

	Crude					Refined		
	Supply		Demand			Supply	Demand	
	Production	Imports	Exports and Re-exports	Stock Changes	Refinery Throughput	Imports	Domestic 3/ Consumption	Exports and Re-exports
Total	1,950	200	1,890	10	250	120	310	60
Producers	1,950	None	1,890	Neg'l	60	10	60	10
Nigeria	1,820	None	1,780	Neg'l	40	Neg'l	40	Neg'l
Other	130	None	110	None	20	Neg'l	20	Neg'l
Non-producers	None	200	None	10	190	110	250	50

1. Excludes South Africa, Angola, Mozambique, and Rhodesia.
2. Components may not add to totals due to rounding.
3. Excludes bunkering.

Table 4

Sub-Saharan Africa: Increased Prices for Selected Exports of Non-Producing States

US $ per 100 lbs

Commodity	Selected Exporting Countries	Average Prices 1972	1973	Apr 1974	Sept-Oct 1974
Cacao (New York market)	Ghana Togo Ivory Coast Cameroon	32.26	63.96	110.21	114.11
Coffee (New York market)	Ethiopia Uganda Ivory Coast Togo Central African Republic Cameroon Liberia	48.47	59.56	70.41	55.88
Copper (London market)	Zaire Zambia	48.56	80.88	137.32	64.79
Cotton (Liverpool market)	Sudan Mali Upper Volta Chad Central African Republic Tanzania	32.93	N.A.	96.75	75.58 1/
Groundnuts (London market)	Senegal Mali Niger Sudan	11.52	17.76	24.52	23.78
Palm oil (Malaysian)	Dahomey Ivory Coast	9.93	10.73	28.08	33.25 1/
Rubber (New York market)	Liberia	18.10	32.88	42.80	32.00
Sisal (London market)	Kenya Malagasy Republic Tanzania	11.48	24.40	47.63	N.A.

1. The latest available average prices for cotton and palm oil are for, respectively, July and August 1974.

Table 5

Sub-Saharan Africa: Estimated Costs of the Non-Producing States' Petroleum Imports, 1972 and 1974 1/

	1972 3/	1974 2/ 5% Less	Equal	5% Greater
Total annual costs (million US $)	370	1,250	1,310	1,380
Crude imports (thousand b/d)	200	190	200	210
Average price (US $/b)	2.30	10.30	10.30	10.30
Cost (million US $)	170	710	750	790
Refined imports (thousand b/d)	110	105	110	115
Average price (US $/b)	5.00	14.00	14.00	14.00
Cost (million US $)	200	540	560	590

1. Excluding South Africa, Mozambique, and Rhodesia. Components may not add to totals due to rounding.
2. Projections for 1974 are based on estimated oil import volumes equaling, consecutively, 5% less than in 1972, unchanged from 1972, and 5% greater than in 1972.
3. Because data for sub-Saharan countries are incomplete, estimates for 1972 are based on the volume of imports and average prices for Arab crude and European products.

gold and foreign exchange to be able to rely for even moderate periods on increased withdrawals from reserves. Other imports can't be reduced significantly without cutting into supplies of essential food commodities and of transport equipment and other machinery. Increased indebtedness, therefore, will be the principal means of financing the higher oil costs.

OPEC Relief

With their growing oil wealth, the African and Arab producing countries have been under increasing pressure from the African oil importers to take steps to offset the sharply increased energy costs. A number of African countries have approached Nigeria, hoping to buy oil at low prices. Nigeria -- with one-fourth of black Africa's population and a per capita income of less than $200 -- is reluctant to provide cheap oil or economic assistance on a significant scale. Nevertheless, it has recently reiterated its willingness to provide some of the oil-importers with crude at below market prices providing they request it and have refineries.

The Arab oil-producing countries have set up an Arab Fund for Africa with a capital of $200 million to assist African countries in meeting the higher oil

cost. Uganda, the first recipient of the fund, recently received a $5.65 million credit, and Tanzania and Liberia have signed agreements enabling them to begin using fund credits. An Arab Bank for Agricultural and Industrial Development in Africa, a companion institution, is still being formed. African leaders have complained that the Arab fund has been too slow in getting underway and is too small. Several African countries also have drawn from the International Monetary Fund Oil Facility to ease the balance of payments strain of increased oil prices.

Impact on Selected Non-Producers

The impact of increased oil prices on four non-producers -- Mali, Ghana, Tanzania, Zambia -- ranging from one of the poorest to several of the better off states, illustrates the great diversity of the non-producers' problems. Each of the countries will suffer from 1974's higher oil prices, but they have widely varying capabilities to cope with the situation.

Mali has no significant domestic sources of energy and meets its requirements solely through imports of refined petroleum. The oil import bill probably will reach about $15 million to $18 million at the end of

1974 compared to $8.7 million in 1973. Coupled with increased import payments for cereals, increased prices for oil imports are expected to raise Mali's trade deficit from $56 million in 1973 to $70 million in 1974. Mali can expect a balance of payments deficit of $30 million or so in 1974. The deficit will add substantially to Mali's large external debt of $325 million since reserves totalled only $5 million at the end of 1973.

Like Mali, Tanzania is suffering from both increased oil prices and widespread drought. At the end of 1973 Tanzania's foreign exchange reserves reached an all time high of $145 million. The picture has changed dramatically since then, however, with reserves falling to $45 million by September due to added energy costs and drought-induced imports of food grains. Oil imports -- on which Tanzania relies for most of its energy requirements in the modern sector -- are expected to cost $73 million in 1974, an increase of $45 million over 1973 assuming no increase or decrease in volume of imports. Tanzania's total trade deficit for 1974 is expected to be about $240 million, $100 million more than in 1973. This has forced Tanzania to cut back imports sharply which may further hamper economic growth at least in the short run.

Ghana relies on the import of oil -- which is refined domestically -- mainly as a source of fuel for the transport industry. Its supply is of particular importance to ensure the collection of the cacao crop -- Ghana's most important export. Ghana's prospects for export proceeds in 1974 look promising due to high cacao prices; the prices for Ghana's other major exports, timber and gold, have also held up well. Ghana has registered large current account surpluses for the past two years, and its reserves at the end of September were about $100 million. The additional foreign exchange cost of crude and petroleum products imports in 1974 could be as much as $120 million more than the $50 million Ghana paid in 1973. This will put pressure on the balance of payments, even though Ghana is husbanding its exchange carefully by strictly controlling imports.

The fate of Zambia's economy is tied almost completely to copper, which supplies 95% of total exports. Even though copper prices have now fallen, they were high the first part of the year and allowed Zambia to accumulate substantial reserves. Reserves totalled about $300 million at the end of August. Zambia relies entirely on imports for crude oil which it refines domestically.

With consumption of about 17,500 b/d, Zambia's total petroleum bill will jump from $56 million in 1973 to around $120 million in 1974. Although the increased oil costs and falling copper prices now are draining Zambia's gold and foreign exchanges reserves, the balance of payments probably will register a surplus for the year.